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## China, Peoples Republic of

### Market Development Reports

### Wuxi: In the Heart of the Yangtze River Delta

### 2008

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**Report Highlights:**

Located in the center of the Yangtze River Delta, Wuxi is one of China's fastest developing cities and a major manufacturing hub for the region. Forbes ranked Wuxi No. 2 among the best cities for business in mainland China, and the Chinese government rates it among the ten most dynamic economies in the country. A GDP growth rate of 17.7% combined with a rapidly evolving consumer culture reveals real potential for U.S. food products in this market. A key obstacle continues to be a lack of familiarity with imported food ingredients and international cuisine among Wuxi's increasingly affluent consumers. ATO Shanghai has conducted a number of retail and HRI activities in Wuxi, with excellent results.

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## Introduction:

Although close to Shanghai, Wuxi was until recently known as a typical manufacturing hub and tourism destination for domestic travelers. That reputation is quickly changing. Forbes ranked Wuxi No. 2 among the best cities for business in mainland China, and the Chinese government rates it among the ten most dynamic economies in the country. Additionally, Wuxi claims to offer the best living environment and quality of life in Jiangsu province. The city's economic success is due to a cluster effect of mutually supporting development zones that are propelling its industries forward and attracting ever-greater foreign direct investment. Additionally, Wuxi has a prime location within the Yangtze River Delta, allowing it to serve as a regional transportation hub. With 4.6 million residents and an impressive 2006 GDP growth rate of 17.7%, Wuxi has the potential to become an important market for U.S. food products. Per capita GDP was \$9,093 in 2006, with 24% of disposable income going to food expenditures. According to authorities, about 50% of food demand is met by local production.

## Wuxi and the Yangtze River Delta



## Background: “Little Shanghai”

Wuxi is the birthplace of Wu Culture, one of China's 5 ancient kingdoms. Water is the central element in the city's history, economy and culture. Built along the ancient Grand Canal, Wuxi continues to serve as an important commercial and communications hub for eastern China. A network of national highways, railway lines and water routes converge in the city, making it an excellent distribution hub for regional markets. Wuxi is 128 km (80 miles) east of Shanghai (population 20 million) and Nanjing (6 million) is 183 km (114 miles) to the west, while only 30 minutes east from Suzhou (6 million). The well-developed water transportation system includes the Yangtze River to the north, Lake Taihu to the south and the Beijing-Hangzhou Grand Canal. The Port of Shanghai is 165 km from the city, and the Jiang Yin Container Port is only 38 km away. Wuxi is close to a number of international airports: Shanghai Pudong (160 km), Shanghai Hongqiao (120 km) and Nanjing Lukou (180 km).



Referred to as “the Pearl of Lake Taihu”, Wuxi is a meeting point for the Yangtze River, Lake Taihu (one of China's largest lakes) and the Grand Canal

### The Modern Marketplace: A Hotbed for Overseas Investors

Wuxi's industrial sector is comprised of four national, seven provincial and five city-level development zones as well as a series of special industrial regions. Wuxi is home to several science and software parks, labs and engineering technology centers, as well as 11 independent universities and colleges, including the Southern Yangtze University. This combination of maturing industrial zones, an educated labor pool, a technological base and an increasingly sophisticated consumer

<b>Wuxi At a Glance (2006)</b>	
Population	4.6 million (Wuxi) 75 million (Jiangsu Province)
GDP	\$41.4 billion (Wuxi) \$272 billion (Jiangsu Province)
GDP growth rate	17.7% (Wuxi) 14.9% (Jiangsu Province)
GDP/Capita	\$9,093 (Wuxi) \$3,614 (Jiangsu Province)
Major Industries	Textiles, mining, electronics, IT, auto parts, pharmaceuticals
Key Agricultural Products	Freshwater fish, pork, cow's milk, poultry, vegetables, silk, peaches, flowers
Major Food Retailers	Carrefour, Auchan, Metro Cash & Carry, Fu-Mart, Beijing Hualian, Lotus, RT Mart, Trust Mart

market leads experts to suggest that Wuxi's economy has achieved the critical mass needed to take off, much as its neighbor Suzhou has done. At present, the textile industry is the leading economic sector, followed by mining, electronics and IT. Of growing significance are the auto parts, biotechnology and pharmaceuticals industries. International investors in Wuxi's industrial parks include General Electric, Hitachi, Sharp, Sumitomo, GM, VW, Bridgestone, Lanxess Chemicals, Astra Zeneca and Mobis.

Wuxi also has an expanding modern retail sector. Retail sales revenue in 2006 is estimated at \$7.7 billion, up 16.5% from the previous year. Shopping centers are approaching the quality and sophistication already found in Shanghai, and include venues such as the New World Department Store, Parkson Department Store, Yaohan, Commercial Mansion, No. 1 Department Store, Grand Ocean Department Store and BAOLI Plaza. B&Q, a foreign-invested home improvement store, is also operating in Wuxi.

The gross output value of Wuxi's agricultural sector was \$1.2 billion in 2006. Wuxi is famous for freshwater fish, such as silver needlefish and white shrimp, coming from Lake Taihu. The hog industry is expanding and dairy is also important, with two major companies, Everbright and Wai Gang, leading the way. Key locally produced processed foods include cocoa products, egg products, canned peaches, beer and other alcoholic beverages.

Wuxi is also cashing in on its long history and ideal location to become an increasingly popular tourist destination. Its proximity to Shanghai, in particular, allows it to serve as a weekend destination for car-owning Shanghaiese bound for the shores of Lake Taihu. The growing affluence of nearby Nanjing (the capital of Jiangsu with a population of over 6 million) is likely to generate additional tourism in the future. The number of international tourists is also rising, with 616,786 international visitors



Wuxi is quickly turning into an important regional economic center.

reported in 2006, a 22% increase over the year before. In May 2008, the city government held the 3<sup>rd</sup> Wuxi Tourism Festival to boost its tourism industry. The objective of this annual festival is to promote Wuxi an attractive tourist destination for both Chinese and foreigners.

## **Sector Analysis: Cuisine, Food Processing, HRI and Retail**

### **Cuisine - A Sweet Tooth**

Wuxi cuisine has similarities to that of the rest of the Yangtze River Delta, a preference for sweet over spicy, heavy use of oil and a preference for seafood. However, there are also significant differences. Wuxi cuisine is even sweeter than that of Shanghai and the consumption level of chicken, milk and milk products, spaghetti and hard liquor is greater. People from Wuxi tend to eat more dumplings and regard pork ribs stewed in a sweet, heavy soy sauce as a signature local dish.

### **Food Processing**

As noted above, Wuxi is home to a significant dairy processing industry as well as some medium-sized food manufacturers, particularly chocolate confectionery. Apart from dairy, however, the local food manufacturing industry is not particularly strong in the context of other Yangtze River Delta cities. Wuxi's real strength in the food processing field comes from the Southern Yangtze University (SYU), which hosts one of China's strongest food science programs. SYU actively seeks to work with organizations that can provide insights into new food processing technologies and methods. The U.S. industry's cooperation with SYU began with an Almond Board of California-supported activity to develop new almond-based products through a contest between different teams of students in the food science program. The winning team was offered the opportunity to work with a major food manufacturer to bring their product to market, providing the students with the opportunity to develop real-world product development experience, while supporting imports of U.S. almonds. While SYU is still taking an active part in this activity, another seven universities are going to join this program in 2008. Besides the Almond Board of California, U.S. Dairy Export Council is considering collaborations with SYU on applications of U.S. dairy ingredients in the China market, in view of SYU's strong advantage in R&D.

For several years, ATO Shanghai has developed a strong relationship with SYU, utilizing their skills and facilities for additional market development activities. With the Chinese government undertaking a campaign to improve the quality, safety and scale of the domestic food processing industry, programs like that at SYU are likely to play an increasingly important role both as centers for innovation and as sources of future leadership for the food industry.

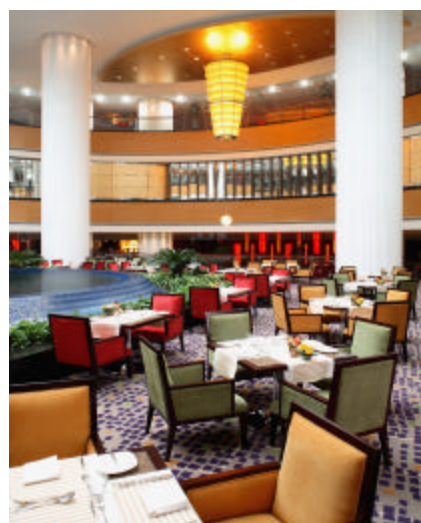
### **HRI**

Wuxi's restaurant industry had revenues of RMB 10.8 billion (about \$1.4 billion) in 2007. The choice of cuisine is still limited mainly to local Chinese fare but is expanding to match the pattern in the more developed cities nearby, like Suzhou. Some chain restaurants are emerging to provide customers a full range of international cuisines with affordable prices. For instance, Amazon Food and Beverage Co. Ltd., a local chain restaurant, currently operates 10 restaurants in Wuxi, with half of them dedicated to international buffet. The other local restaurants are experimenting with new ingredients to develop some fusion style food to meet customers' ever-growing demand for novelty.

Not only are the individual restaurant managers foreseeing this trend, some associations are making efforts to accelerate it. Established by Wuxi Restaurant Association, Xi Cai (the name of the local cuisine) Research and Development Center offers a platform to the local talented chefs to discuss how to incorporate new ingredients in Xi Cai while maintaining the

attributes of the local cuisine. Dating back to 2004, the Taihu Food Festival is one of the most influential food festivals in Wuxi and Jiangsu Province. It normally consists of a series of activities, including chef competitions, menu promotions and *My Favorite Xi Cai* survey and contest.

As elsewhere in China, hotel restaurants lead the way in introducing international cuisine. Kempinski Hotel Wuxi is currently Wuxi's only international 5-star hotel. However, according to industry insiders, the situation is going to change dramatically in the next couple of years. Millennium and Copthorne has signed a management agreement with Wuxi Xin Chang Property for the Millennium Wuxi Hotel in China. The hotel is planned to open mid-2008. Hotel Nikko Wuxi, operated by JAL Hotel Co., Ltd, is now under development and is planned to open in October, 2009.



Hotel restaurants lead the way in introducing international cuisine.

Kempinski Hotel Wuxi uses a significant amount of imported ingredients, including wines, beef, seafood, dairy products, seasonings and condiments.

Discussions with the Kempinski reveal that Paulaner Brauhaus, a unique combination of a restaurant and a micro brewery, serves as a major center for the local expatriate community. There are also two Chinese-

owned 5-star hotels, Taihu Hotel and Hubin Hotel, but they and the lower ranked hotels use few imported ingredients. Hotels and restaurants report buying some of their imported food from local hypermarkets such as Metro, Carrefour or the Wuxi Food Center, a wholesale market. Typically, food is distributed through Shanghai and Suzhou. Competition among suppliers is light and orders are small.

### **Retail**

Wuxi's food retail sector is well developed compared to the one in the other second-tier markets. Most hypermarkets operating in Wuxi are foreign invested companies, while the supermarkets are local chains. Major international retailers, including Carrefour, Lotus, Metro, Wal-Mart and Trust Mart, have already entered the market and maintain a strong position. Hypermarkets are more likely than local supermarkets to carry imported food items. Although the number of imported items remains relatively low at present, the situation is going to change. According to the store managers of Carrefour and Metro, these two hypermarkets are going to increase the percentage of imported products sales revenue, especially food products, from 3-5% to 10 % in the next three years. Interviews also reveal that consumption of dairy products, frozen and ready to eat products, biscuits, baby food and wine will enjoy rapid growth in the next few years.

#### **Major Retailers in Wuxi Market**

<b>Retailer</b>	<b>No. of Stores</b>	<b>Format</b>
Lotus	3	Hypermarket
Carrefour	2	Hypermarket
Metro Cash & Carry	1	Hypermarket
Wal-Mart	1	Hypermarket
RT Mart	1	Hypermarket
Auchan	1	Hypermarket
Tesco	1	Hypermarket
Trust Mart	1	Hypermarket
Hao Mai De	1	Hypermarket
Yong An	17	Supermarket
Zhong Bai	14	Supermarket
Bai Ye	10	Supermarket
Tian Hui	5	Supermarket
Kedi	30+	Convenience Store



Compared to local supermarkets, hypermarkets are enjoying increasing appeal, pulling in customers who not only live in the immediate vicinity but also further afield. Part of the hypermarkets' appeal is a conviction among consumers that they are less likely than smaller operators to sell inferior or counterfeit items. On any given day, a more popular hypermarket will see 10,000 – 15,000 customers, with over 20,000 on weekends. There are relatively few foreigners living in Wuxi and most imported food purchases are made by local Chinese, especially by people who are under 35.

Most hypermarkets use Shanghai as a central buying point for imported items. The cold chain logistics system between Wuxi and Shanghai is well developed and distributors are usually responsible for arranging delivery of the items. Management at one hypermarket explained that they were not aware of any counterfeit problems encountered while working with their current distributors.

### **Best Prospects**

While sources that have worked in Wuxi's food industry for a number of years report that there is increasing demand for imported food ingredients, the market is far less developed than nearby Suzhou, partly due to the underdeveloped distribution network and inadequate consumer education. However, there is a demonstrated willingness among residents to spend money to try new dishes. Store managers of those major retailers also expressed eagerness to cooperate with U.S. cooperators and local distributors for all kinds of promotions to train their sales staff and better educate the consumers. ATO Shanghai has conducted a number of activities in Wuxi that have been effective in popularizing imported ingredients. Press coverage is relatively easy to obtain, and TV coverage has been particularly effective in attracting people to these activities. Continued efforts directed at the development of distribution channels, training of HRI staff in the handling and preparation of U.S. products, and consumer education will be essential to further develop this market and to build consumer confidence and demand.

Fresh fruit from the U.S. is fairly common in Wuxi, while there are virtually no vegetable imports beyond frozen mixed vegetables and sweet corn. A key challenge for fruit is the short shelf-life remaining by the time it arrives in retail venues, as well as reports of inconsistent quality due to poor handling. These problems have dampened sales by raising market risks for distributors. U.S. beef remains extremely popular in high-end venues, but the current import ban has made it difficult to obtain. U.S. wines have established a toehold in Wuxi, appearing on a number of retailers' shelves and in restaurants, opening the door for future expansion.

Strong demand exists for pork, chicken and offal, which are popular in Chinese cooking. A visit to the Wuxi Wholesale Market is a good indicator of current and potential demand for such products. The market serves wholesalers, factories and processing plants in Anhui and Jiangsu provinces, and across the country. One of the largest such markets in China, sales revenues reached roughly \$660 million in 2006. Ten to twenty distributors in the market carry U.S. meat at any given time. One of the more established of these distributors imports about \$200 million of U.S. pork, poultry and offal each year, depending on market conditions. Importers move product directly from ports to the Wuxi market in trucks, using the import licenses of Shanghai or Wuxi-based licensed importers. Pork variety cuts and chicken paws are the most common import from the U.S. Competition from countries such as Brazil is strong and Chinese pork and poultry products are steadily improving in quality. Interviews with distributors found that they could get the types of U.S. products they wanted, but not from the specific processing plants they desire. Current plans are underway to transform the wholesale market into a more sophisticated meat exchange for making contracts rather than simply exchanging physical product.

Wuxi: Best Product Prospects		
Product	Market	Notes
Beef	retail and restaurant	Imports of U.S. beef are currently suspended, however retail contacts indicate that it was a top-selling product prior to the ban. U.S. certified beef enjoys a strong reputation in this market. Presently, high-quality beef is imported from Australia, though there are significant amounts of beef claiming to be U.S. entering through gray market channels.
Apples	retail	Chinese consumers like and can afford high-quality red delicious. Thanks to the beautiful red colors, they are selling extremely well during the festivals.
Oranges, grapefruit, lemons, table grapes	retail and restaurant	Sunkist oranges are widely recognized and sell well in this market. However, retailers are complaining about their inconsistent quality
Cherries	retail	U.S. cherries are regarded as luxurious fruit by local people. Major retailers witnessed a huge sales growth of U.S. cherries in the past two years.
Seasonings and condiments	retail and restaurant	Ketchup, syrups, honey, mustard, vinegar, olive oil sell well in the HRI sector.
Frozen/ Ready-to-eat products	retail	With the ever increased pace of life, the demand for frozen and ready-to-eat products is growing rapidly, thanks to the wide use of microwave, ovens.
Dairy products	retail and restaurant	Local F & B managers see growing demand for these products, although considerable competition exists from sources such as Australia and New Zealand.
Chocolate	retail and restaurant	Wuxi Carrefour indicated that there are always good sales in imported chocolates. Strong competition exists in this market segment.
Almonds	retail and restaurant, food processing	Commonly roasted and salted as a snack food or put in chocolate and bakery products. ATO Shanghai assisted in the Wuxi Almond Product R&D Student Competition in 2004 and 2006, demonstrating this product's increasing appeal.
Pistachios	retail and restaurant	Though expensive, pistachios have enjoyed considerable success, often as a gift item.
Fish (black cod and salmon)	restaurant and retail	Potential exists given the local taste for seafood. U.S. seafood is currently losing the price war to cheaper imports from places like Norway, Australia and the Philippines, though wild-caught products from the U.S. can command a higher price.
Poultry	retail restaurant	Chicken is even more popular in Wuxi than in other areas of the Yangtze River Delta where it is already quite popular.
Chicken feet, pig heart, ear, tongue and stomach	retail, wholesale, food processing	There is significant demand that will only increase as incomes rise and demand for meat increases, out-stripping supply. Current competition exists from Brazilian product that is presently enjoying a good reputation. Local product quality has also improved greatly in the past couple of years, creating additional competition.

### In Our Sights: ATO Targets Wuxi

Proximity to Shanghai, growing affluence and a relatively underexploited market for imports all make Wuxi an ideal target for ATO activities and Wuxi has featured in a number of past ATO Shanghai's efforts. Most of these have been multi-city activities targeting the transportation corridor between the three largest markets in the region, Shanghai, Suzhou and Nanjing. This experience has provided some insights into the peculiar features of this market.

- ❖ HRI is an excellent venue for promoting new products. Some chain fashion-style restaurants are emerging to support a dedicated menu promotion for U.S. food products. Existing western restaurants tend to rely on local retailers for specialty products, making retail a potentially important component in HRI activities.
- ❖ Western restaurants in Wuxi serve a different role than in Shanghai or Suzhou. Where high-end restaurants in those cities serve an ever-changing mix of expatriates, tourists and adventurous Chinese customers, Wuxi's tend to serve as centers of the resident expatriate community. This provides them with a small, but very loyal customer base.
- ❖ U.S. condiments and sauces have a wider audience, being widely used in bars and fast-food venues as well as western restaurants; hence the distribution systems for these products are better developed.
- ❖ For volume sales, ingredients with either specific appeal to Chinese tastes, or generic ingredients that can be adapted to Chinese cuisine tend to do the best. The former includes chicken paw and other offals, while the latter includes seafood, fresh fruit, nuts and dried fruit.
- ❖ For value-add products, proper consumer education activities, together with sampling and free tasting are very helpful in retail stores to promote U.S. products.
- ❖ Major retailers and chain hotels in Wuxi tend to share distribution systems with stores in Suzhou and, to a lesser extent, Shanghai. Distribution should not pose a major barrier for products already available in Shanghai, provided that retailers can be convinced that sufficient demand exists.

### Recent ATO/Cooperator Activities

ATO Shanghai has made a concerted effort to develop market in Wuxi as part of a larger strategy to develop the Shanghai-Nanjing corridor. Recent activities by ATO and USDA cooperators include the following:

- ❖ December 2007 – Nationwide American Food Promotion - With participation from the Wuxi Metro.
- ❖ December 2006 – Starwood Jiangsu American Food Festival at the Wuxi Sheraton – An American themed menu promotion with a celebrity chef.
- ❖ November 2006 - Almond Board of California's (ABC) competition for best recipe using almonds.
- ❖ November 2005 – Starwood Jiangsu American Food Festival at the Wuxi Sheraton – An American themed menu promotion with a celebrity chef.
- ❖ September 2005 – Nationwide American Food Promotion - With participation from the Wuxi Carrefour.
- ❖ July 2005 – American Fruit Festival, Nationwide Fruit Promotion - With participation from the Wuxi Carrefour.



**Join Us!**

ATO Shanghai is continually working on new activities in Wuxi as well as other Emerging City Markets throughout the Yangtze River basin. For more information, please contact us directly.

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